



**Town of Nantucket
Audit Committee
Agenda of the Audit Committee
Meeting of Tuesday, January 27, 2015
9:00am
4 Fairgrounds Rd. Training Room**

1. Call to Order.
2. Approval of Minutes from Meeting on December 16, 2014.
3. Update on FY2014 Management Letter
4. Date of Next Meeting: TBD.
5. Adjournment.



Town of Nantucket Audit Committee

www.nantucket-ma.gov

MINUTES

Tuesday December 16, 2014

4 Fairgrounds Road, Training Room – 9:30 a.m.

Staff: Libby Gibson, Town Manager; Gregg Tivnan, Assistant Town Manager; Brian Turbitt, Finance Director; Martin Anguelov, Assistant Finance Director; Deb Weiner, Treasurer; Bob Dickinson, Assistant Town Accountant; Terry Norton Town Minutes Taker

Department Heads: Kara Buzanoski, Director DPW

Attending Members: Rick Atherton, Bruce Miller, Matt Mulcahy

Absent Members: None

Auditor: Anthony Roselli and Chad Clark, Roselli, Clark & Associates (RC&A) by Skype

Documents used: Copy October 7, 2014 minutes; FY2013 Management Letter Progress spreadsheet; 2014 DPW Operations Review spreadsheet

I. CALL TO ORDER

II. APPROVAL OF MINUTES

October 7, 2014, adopted as amended by unanimous consent

III. UPDATE ON FY2014 AUDIT WITH AUDITOR

Roselli – Most attention was focused on preparing a Comprehensive Annual Financial Report (CAFR); that has been accomplished. They are going through the final stages and hope to issue as final by December 19. Right now not at a point to discuss findings. The single audit is not yet done, will be scheduled within the next couple of weeks. Hopefully the CAFR will be final and go on the website Friday and then it will be sent to the Government Finance Officers Association (GFOA). The Finance Department will then distribute it to the interested parties.

Atherton – Asked to whom the CAFR is addressed.

Clark – The report is addressed to Board of Selectmen (BOS).

Gibson – Asked if the BOS would have an opportunity to make changes if they so wish.

Roselli – It does not have to go to the GFOA until December 31. He could send a draft for the BOS to review over the next 12 days and still leave time to submit it.

Atherton – This is an important new document issued by the Town. He would like to see a copy before it goes out.

Turbitt – State he will forward his copy to the BOS and the Audit Committee members this week.

Roselli – Suggested Mr. Atherton focus his attention on the letter of transmittal. Asked that any review be accomplished by December 25. Once this is nailed down, their attention will turn to the 2014 management letter.

IV. FY2013 MANAGEMENT LETTER PROGRESS UPDATE

Turbitt – Part A, have met with firms interested in doing bus with the Town. Will put out a quality-based request for proposal (RFP). Not only looking at moving OPEB but also at stabilization funds and scholarship trust funds to earn better returns.

Atherton – Asked how it interfaces with State.

Turbitt – That is still an option; however we would have to petition them.

Mulcahy – Including stabilization and scholarship, asked if there is a better way to get better interest rates.

Turbitt – By pooling all that, we get a better fee structure. We can look at the state option and have a more in depth discussion about that as the process proceed. It would be valuable to have in reviewing the RFPs.

Health Insurance Mandate, have received a proposal from the health insurance consultant; it will be completed by June 30, 2015.

Findings and Recommendations relative to Nantucket Memorial Airport, everything has been addressed with the only outstanding item being the General Manager working on how to consolidate accounts.

Roselli – The 2014 airport audit went well. He is satisfied that the Management Letter issues from FY2013 have been corrected and addressed for the most part.

Clark – Some things are still being implemented. Jamie Miller, the Airport business and finance manager, is being trained on the system to use it more efficiently; there will be further improvements in FY2016.

Turbitt – Under Municipal Finance Department Payroll, most of these issues are cleaned up. The only outstanding item is the IRS garnishment. Stated that a check for most of the money has been received from the IRS and he and Mr. Roselli are drafting a letter asking to waive the remaining penalty. Stated he is hopeful that will happen.

Sewer and water was also completed; but he left e-billing open as they are always looking at opportunities to do that.

Under Municipal Finance Department, the Health Insurance Trust. Asked Mr. Roselli to address that.

Roselli – Health Insurance Trust the way the liabilities were done has all been corrected and there has been a full accrual. Everything looks fine on that.

Turbitt – Working forward with the Internal Control Process to do cycle audits of cash; this flows into Aged Reconciling Items. The Finance Department is doing a full close on November and has until Monday morning at which point he will review the entire process. He had thought it was cleaned up from FY2013 Management Letter but there are still some small reconciliation items. The reconciliation is between what's posted in MUNIS and what's in the treasurer's cash book. His goal is to have no discrepancy.

Atherton – Going back to Health Insurance Trust, asked how much utilization information the board has access to in order to better understand the business.

Gibson – A couple of times a year, she and Mr. Turbitt meet with the consultant and the Blue Cross representative. There are a lot of claims about prescription drug use that have names attached. A report would be needed to review the top numbers.

Turbitt – Data needs to be presented without identifying what it was for and thus disclosing who it was for.

Gibson – Said she can provide the renewal report which has some of that information.

Turbitt – Have made a lot of progress clearing these items. Expect the 2014 audit will show a lot of progress in some of the still outstanding areas.

V. PAYROLL AND DPW OPERATIONAL REVIEWS PROGRESS UPDATE

Turbitt – The first item is Chapter 90 reimbursement; they now have a process in place to track the projects to ensure items are being charged correctly. Finance Department now has to sign off on authorizations and when the project is done, Finance signs off on the reimbursement request. Mass DOT suggested waiting until projects are fully complete then going for the full reimbursement. He and Ms Buzanoski are still working on written policies and procedures and hope to have that done soon.

Video surveillance, Ms Buzanoski has been researching what type of camera system that would work best at the weigh station.

Finance did periodic audits of Waste Options tipping fees at the scale house; and it matched to the penny. They will continue those.

Buzanoski - Cash is being picked up daily and a lock box has been installed on the door. The cash runs about \$500.

Turbitt – Reviewing Accounts Receivable to ensure delinquent fees are not getting too far out.

Buzanoski – They are not turning them over to a collection agency; instead decided to try to work with the client. Once they are notified they can only pay cash.

Turbitt – There is a discussion on the septic system conversion happening at the BOS meeting with the proposed policy change for residents who have wells but are on Town sewer.

Gibson – If a house has a private well and Town sewer, they would be required to have a meter installed for billing purposes.

Buzanoski – There have been complaints that a 4-bed family isn't the same as a home for an elderly couple, so it tracks to water usage. Stated the opinion people will find out that the flat-rate is cheaper.

Turbitt – The process for conversion is included in discussion at BOS meeting on Wednesday. Operational review of payroll; the Payroll Work Group is reviewing options for DPW. Thinking about implementing a payroll system similar to that used for Police, Fire, and Our Island Home. The problem with outsourcing payroll and being an island is if an employee receives a check, as opposed to direct deposit, and the planes are not flying, he/she won't get their checks. Can't force an employee to use direct deposit. Have started to do payroll reconciliation.

Atherton – Asked if as part of the quarterly review, Finance would it be hard to run a balance sheet for perhaps 20 major categories.

Turbitt – It would probably be more meaning full to look at the full balance sheet at the end of each quarter. They can run a balance sheet at the end of each quarter to compare to the prior year.

Roselli – The CAFR is due December 31, 2014 and the single and school audits are due March 31, 2015

VI. DATE OF NEXT MEETING

January 27, 2015 9:00

Review of 2014 Draft Management Letter

Motion to Adjourn: 10:08 a.m.

Submitted by:

Terry L. Norton

TOWN OF NANTUCKET, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2014

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Honorable Board of Selectmen, Audit Committee
and Town Manager
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We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Nantucket, Massachusetts (the "Town") as of and for the year ended June 30, 2014, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 22, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Selectmen, Audit Committee, Town Manager and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roselli Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 22, 2014

I. OVERVIEW

Fiscal year 2014 provided further evidence of improvements to the local, national and international economies. According to the U.S. Bureau of Labor Statistics, both state and national unemployment rates are approaching pre-recession levels and productivity indexes are trending above expectations. Furthermore, residential home values, especially on the island, continue to improve and the market for new and existing home sales has been robust over the past two to three years.

While these improvements provide optimism to the Town and its residents, the Town must remain diligent in managing its finances. The Town has been successful in maintaining its reserve balances despite trying economic times. Many other towns have conceded to the pressure of maintaining services in lieu of building reserves and thus are facing the consequences of those decisions including downgrades to their credit ratings. The Town, however, has managed its financial operations well despite this prolonged challenge.

The Town ended the year with approximately \$14.7 million in unassigned fund balance in its general fund. This represented 19.1% of the fiscal year 2014 general fund budget and far exceeds the state-wide average (8%) as well as the “optimum ratio” (15%) favored by bond rating agencies.

This is the type of consistency that has allowed the Town to earn and maintain an Aa2 rating from Moody’s Financial Services, as well as set up the Town to potentially increase this rating in the near future. We are encouraged by this effort and support the Town’s efforts to continue this trend.

Exhibit 1 illustrates this positive trend:

Exhibit 1

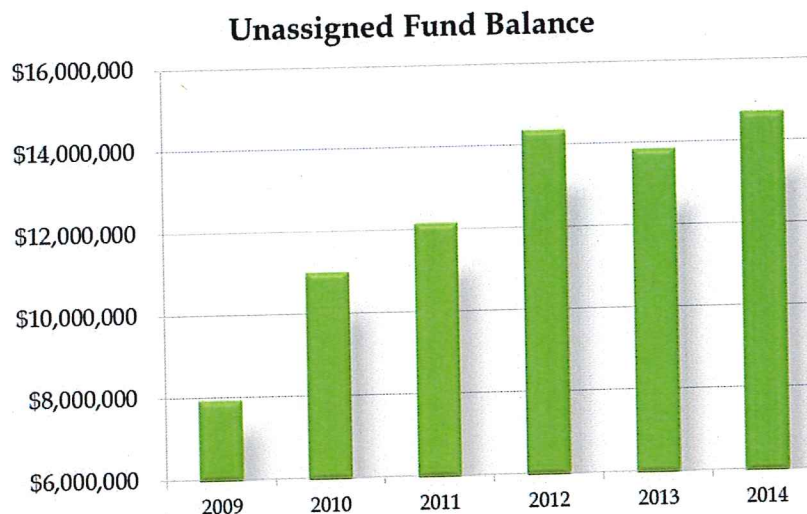
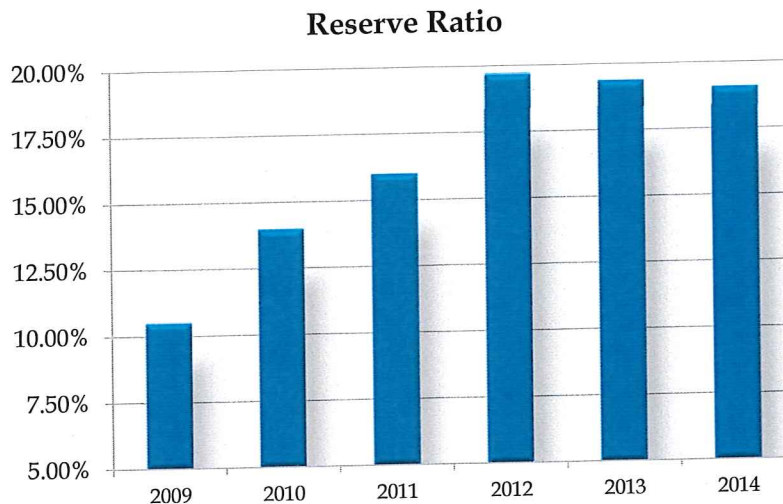


Exhibit 2 illustrates the growth in reserve ratio:

Exhibit 2



Also on a positive note, the Town continues to aggressively address annual Management Letter comments. The Town's Audit Committee, which was established a few years ago at a time when maintaining sound financial management practices was a challenge for the Town, oversees this process. As a result, for the third consecutive year, significant improvements to the Town's operations have been observed.

The following reflect some of the highlights for fiscal year 2014:

- A Comprehensive Annual Financial Report (CAFR) was prepared for the year ended June 30, 2014. The Town is 1 of about 25 communities in Massachusetts to prepare such a report.

Such an endeavor qualifies the Town to receive the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. In addition, it provides the Town with enhanced financial information and accountability to its citizens, elected and appointed officials, and investors. Preparing the report does not guarantee an increase to the Town's credit rating however the report will have tremendous investor appeal.

- Findings related to the Nantucket Memorial Airport, a town enterprise fund have all been resolved.
- Findings related to the Wannacomet and Siasconset water enterprise funds have all been resolved.

- The Town has increased its awareness of the Other Postemployment Benefits obligation by creating a dedicated annual budget source to fund the liability. This is a very important step to increasing the Town's credit rating.
- Health insurance subscriber audits are currently underway and by the completion of fiscal year 2015, it is expected that the Town will be in compliance with this requirement of the Health Insurance Reform Act.
- IRS garnishments of over \$400,000 were protested by the Finance Office. As a result the Town was able to receive approximately \$360,000 of the amounts previously garnished. This will result in an increase to free cash when it is certified at the close of fiscal year 2015. It will be available for appropriation at the April 2016 Town Meeting. Protests are currently ongoing in efforts to collect the remaining penalties and interest that were assessed.
- The Internal Service Fund, which is a health insurance trust fund, was presented on a full accrual basis at the close of fiscal year 2015. This eliminated the payable errors reflected in the prior year Management Letter.
- Capital assets are now being captured contemporaneously with the use of software purchased by the Town during fiscal 2014. This was a large task for the Town due to the significant volume of capital assets under the Town's control. This is now an efficient process moving forward.
- The Town made amendments to its purchase order system. Purchase orders are no longer needed for amounts less than \$500. This has improved efficiency in the purchasing process.
- With the appointment of a new Finance Director at the end of fiscal year 2014, Finance has begun the process of conducting internal audits of departments in fiscal year 2015. This will increase the Town's awareness of risk, and allow the Town to implement improved controls in cash handling areas.

One of the results of the significant progress made with respect to the operating deficiencies as discussed above was the removal of the Town from the Department of Revenue "watch list". The Town is no longer required to submit audited financial statements to the Department of Revenue prior to the tax rate being set. This is a major positive step for the Town.

While progress has been made in many critical areas, some findings from prior years remain unresolved. In addition, new findings were observed resulting from the procedures of the current audit. These are summarized in this Management Letter and have been discussed with the Finance Department. We understand that improvements are currently being developed to address these.

II. INFORMATIONAL ITEMS

New Pension Accounting Standards

In June 2012, the GASB issued Statements No. 67, and No. 68. Both statements will materially impact the Town's reporting of pension liabilities, effective fiscal year 2015.

Because the calculations necessary to implement these statements will be generated by the Barnstable County Regional Retirement System (the System), it is imperative that the Town work with the System to ensure that the information needed is available in sufficient time to be included in the Town's fiscal year 2015 CAFR.

The following areas will be impacted materially:

- 1) Certain actuarial methods of calculating the accrued pension liability will now be mandated, instead of optional.
- 2) The value of actuarially determined pension benefits that have been earned (by both active and non-active employees and pensioners) will now be reported as a liability in the Town's Statement of Net Position and the applicable accrued costs included within the Statement of Activities.
- 3) Enhanced and more detailed financial statement footnote disclosure relative to the pension plan will be required.
- 4) Enhanced and more detailed required supplementary information reporting relative to the pension plan will be required.

In the event the information is not available, it will result in an adverse opinion to the financial statements, disqualify the Town's CAFR and potentially reduce the Town's credit rating. Therefore we urge the Town to contact the System and maintain an open line of communication regarding the timing of this information.

Bond Rating

The Town has been very active in the capital markets in the past decade. As a result, the Town's bond rating is important to not only gain perception as a well-run community, but also to be able to issue bonds to investors for a lower interest rate. This will ultimately lead to reduced financing costs for the Town.

New Standard and Poor Investor Services' rating factors highlight seven areas from which a community's debt is rated.

One of the factors includes an evaluation of Management and its effectiveness. This is evaluated based on the financial policies and procedures in place including budget policies, forecasting policies, reserve policies, investment policies, capital policies and debt policies. The management score counts 20% towards the rating evaluation

and is rated on a scale of 1 to 5. A grade of 1 will strongly contribute toward upward pressure in the bond rating.

It is therefore imperative that the Finance Office review all these factors in conjunction with the financial policies that are currently in place and develop or improve the financial policies that will contribute to a higher evaluation in this factor. Adoption by the Selectmen of these policies will render their effectiveness, stronger

With respect to the other 6 factors; institutional framework, economy, budgetary flexibility, budgetary performance, liquidity and debt profile, the Town rates positively in all these factors.

III. FINDINGS AND RECOMMENDATIONS

A. Unemployment Filings

The Town insures for unemployment through the Commonwealth of Massachusetts. Filings and contributions from the Town to the Commonwealth are required quarterly. It was determined that the Town has filed the forms using an incorrect rate for the past decade. This resulted in a significant underpayment to the fund that was charged completely to the fiscal year 2014 budget and caused a \$235,000 deficit that had to be raised on the 2015 tax rate recap sheet.

The filing of payroll related forms has been an issue for the Town for a number of years as evidenced in the prior year when the IRS garnished over \$400,000.

The overall process should be redesigned. A review process by an individual more familiar with filing these complicated forms prior to the actual forms being filed should be the ultimate goal. This will help cut down on errors in the process.

B. Health Insurance Trust

The Town currently self-insures for health insurance. Contributions to the fund are made by the Town and by employees by way of payroll deductions. The fund is now beginning to build equity however it is difficult to determine what portion of the equity is the employer portion and what portion of the equity is the employee portion because the transactions are processed through one revenue account rather than split into two accounts.

It is important to keep the balances segregated because in the event the arrangement is terminated, the Town would need to determine what is owed to the employees if any.

C. Personal Property Tax, Motor Vehicle and Boat Excise Receivable Balances

The Town currently carries personal property tax receivables dating back to 1989, motor vehicle excise receivables dating back to 1986, and boat excise receivables dating back to 1995. The total amount greater than 15 years old is over \$400,000. The Town should analyze the detail supporting these balances and determine if the balances should be abated given the age and doubtfulness of collection at this point in time. In the financial statements, an allowance for doubtful accounts of approximately \$766,000 has been reported which reflects those amounts greater than 5 years old.

D. Receivable Reconciliation

The receivable reconciliations prepared as of June 30, 2014 reflected a number of items identified as timing items between the general ledger and the Tax Collector's

records. After further investigation it was determined that this was due to reports being run in October as opposed to June 30. Certain activity occurring subsequent to year-end in MUNIS sometimes compromise the balances run with a June 30 date. We suggest the Town make efforts to run the necessary reports on June 30 or, if reports are run subsequent to year-end, provide a reconciliation of activity rolling back to June 30 on an excel spreadsheet.

E. Cash Reconciliations (continued from prior year)

The Town Treasurer's general depository account contains numerous reconciling items, some of which are greater than a year old. These net to an immaterial amount, however in order to make the reconciliation process more efficient, we suggest the Treasurer clean up these reconciling items by making the necessary adjustments to the cash book.

F. Closing Process

The Town's submission of its year-end schedules to the DOR had several errors. These errors related mainly to entering data incorrectly from the MUNIS system to the DOR schedules and balance sheet. Contributing to the situation was the tardiness with which the books were closed, which did not allow for adequate review time by the Finance Director prior to submission.

The closing process needs to be reviewed and processes should be implemented to allow for a more streamlined, efficient, error free submission. This would include closing the books by September 15th, to allow for ample review time by the Finance Director.

G. Capital Projects

The Town presently carries about \$250,000 in capital projects balances dating back to fiscal year 2004. A few years ago the Town had many issues with its Capital Project's balances including a review to determine if arbitrage regulations had been compromised. The analysis exposed numerous errors in the process that led to a material weakness citation. These stale balances could be the remnants of this analysis. In any regard, the Town should make best efforts to spend these funds for appropriate projects as soon as possible.

IV. OPERATIONAL REVIEWS

A. Payroll Process

The Treasurer's Office is responsible for processing the Town payroll and the related federal and state wage reporting. These duties are primarily performed by a payroll clerk with the assistance of the Town Treasurer. The administration of the Town's employee benefits are performed by the Human Resources Department.

We interviewed and discussed payroll policies and procedures with the staff of the Treasurer's Office, Human Resources Department, DPW, Police Department and Our Island Home. During our review of the policies and procedures of the aforementioned Town departments we observed the following with respect to the Town's payroll process:

Payroll Warrant and Timesheet Errors

For select samples, we attempted to trace payroll data from the signed payroll warrants to the departmental payroll submissions and then to the employee timesheets/cards. There were numerous errors observed in conducting these procedures summarized as follows:

1. Many samples were missing timesheets.
2. Many timesheets were handwritten, illegible and caused incorrect amounts to be paid.
3. Public Works has a punch clock, but timesheets were still handwritten.
4. There were numerous inconsistencies between the timesheets and the transmittal forms including overtime hours and vacation and sick hours being reported incorrectly.
5. The overall timesheet/transmittal process is sloppy and inconsistent from department to department.

Payroll Submissions

Town departments receive payroll transmittals from the payroll clerk and are expected to update the form for hours worked and include any additional pay for each employee. According to the Treasurer's Office the forms are almost always received after the deadline for submission. The departments are required to recalculate the total the number of hours worked for each location as a control total for the payroll clerk to reconcile to which does not always occur. Ideally, the departments would also be required to recalculate the total dollar pay of each employee which would be a second control total to reconcile to. We were told this was a policy in the past but was abandoned due to the Town's desire to remove pay rate information from the transmittals. This control total could eliminate many of the payroll errors that are occurring.

Employee Accruals

We noted that the Town has had significant problems with various departments and unions regarding the accurate tracking of employee sick, vacation and compensatory time accruals. We understand that significant work has been undertaken in the prior years to bring accrual balances in line. As previously described, many departments do not always put the correct sick, vacation and compensatory time on the payroll transmittals making this a difficult process. Another contributing problem is that many accrual tables in MUNIS are set up to grant the time up front at the beginning of the year which does not reflect the collective bargaining agreements. This is a problem because there are accrual limits set up in MUNIS such that once the time is granted in one lump sum MUNIS reduces the employee accrued balances to bring them down to the limit even if carryover amounts from the prior year exist. Therefore it makes it extremely cumbersome to monitor and calculate proper employee accruals. The Treasurer's Office also does not print and distribute accrual activity and balance reports to Town departments so that reconciliations can be performed between MUNIS and the department's records. We also noted that the accruals for each employee are not closed at the end of each year. As a result the year to date reports of accruals will contain all the activity of the employee since the tables were created.

We recommend that the Town review the current accrual practices and modify the tables in MUNIS to reflect the current CBA's or seek to change the CBA's to reflect the current practices when the CBA's are re-bargained. We recommend the Treasurer's Office run the year end closing process in MUNIS so that year-to-date accrual reporting will be more accurate. Finally, we recommend that the Treasurer's Office distribute accrual balance activity reports monthly and require all Town departments to reconcile with department records and sign off that the activity in MUNIS is accurate.

Fair Labor Standards Act (FLSA) Compliance

The HR Department informed us that certain Nantucket Airport employees were earning compensatory time for hours worked in excess of forty hours rather than being paid overtime. We are also aware that the Town recently modified the compensatory and overtime policies related to other non-exempt employees to be compliant with FLSA.

We recommend that the Town review its current payroll policies and collective bargaining agreements to ensure compliance with FLSA.

Personnel Action Forms

The Town uses Personnel Action Forms (PAF's) to document the information needed to create a new employee in the payroll system or to make non-deduction

related payroll changes to existing employees. The PAFs are not standard and come in different formats, none of which are designed so that the payroll clerk can efficiently enter information into MUNIS. Many of the PAF forms we viewed contained social security numbers of employees which is unnecessary on these forms as the payroll clerk should have an IRS W-4 form on file for each employee. We also noted that the Airport, School and Water Departments submit PAF forms directly to the payroll clerk and bypass the HR Department, which should review each payroll change to ensure that Town human resources policies are being followed.

We recommend that the Town create a standard PAF form that all departments are required to use. The PAF should be designed to correspond to the required fields in the MUNIS employee master file and job salary screens. The social security number field should not be included on the new PAF. We also recommend that the Town consider having the Airport, School and Water Departments submit PAF forms to the HR Department for review prior to entry in MUNIS by the payroll clerk.

Employee Step Increases

Employee pay increases from contractual steps are often processed late and require the Town to process a retroactive payment to the employee. The HR Department is in the process of compiling a listing of employees and the step increase dates for this purpose. Complicating this issue is that the employees' classification date, and not the original hire date, is the date the step increase is given for some employees. Currently the classification dates are not entered into MUNIS.

We recommend that the HR Department complete its listing of employees' step increase dates to ensure that these pay increases are processed timely. Consideration should be given to adding these dates into the MUNIS payroll module so that all payroll users have access to the dates. In the future, in the month prior to the employees' scheduled step increase, the HR Department should complete a PAF form and forward to the department head for approval. Once approved, the Department should forward the PAF back to HR for filing with a copy sent to the payroll clerk for entry into MUNIS.

Employee Benefits

To initiate change to an employee benefit deduction, the HR Department forwards a copy of the related documentation (i.e. health insurance enrollment form) to the payroll clerk for processing. This is inefficient as the payroll clerk has to review the document(s) to ascertain the change that is being requested. We also became aware of an instance where the Nantucket Airport was not offering an insurance option that was available to other Town employees, which is a violation of Federal payroll laws.

We recommend that a Payroll Deduction Form, similar to the Personnel Action Forms described above, be created to summarize the pertinent information needed by the payroll clerk to process the change. The form should be designed to correspond with the required fields in the MUNIS Payroll Deduction Master.

B. Department of Public Works

Chapter 90 Program

The Town is entitled to a set amount of state aid for the maintenance of its roadways under the Chapter 90 Program of the Highway Division of the Massachusetts Department of Transportation (the "DOT"). These funds are obtained by the Town by submitting Chapter 90 Program reimbursement requests after making payments for these pre-approved programs. Chapter 90 Program funds are primarily used for roadway resurfacing but may also be used for initial roadway construction, bikeways, storage garages for road-building equipment, as well as light and heavy equipment used in these processes.

Generally, DOT will make reimbursement payments to a municipality within sixty to ninety days from submission of properly completed and supported Chapter 90 Program reimbursement requests. The timely processing of Chapter 90 Program reimbursements is crucial to a municipality's year-end free cash calculations as well as its overall cash flows. Temporary deficits are common in Chapter 90 funds; however, provided these deficits are cured within ninety days, year-end free cash is not adversely affected by these deficits.

In connection with our analyses and procedures, it was apparent that in fiscal year 2013 and throughout the majority of fiscal year 2014 the Town was not timely submitting Chapter 90 reimbursement requests to the DOT. To prevent a material reduction to the Town's fiscal year 2013 free cash calculation, a temporary borrowing was executed by the Town in the form of a grant anticipation note.

Personnel changes were made in fiscal year 2014 and the new Town Engineer is now responsible for the DPW's Chapter 90 Program. In April and May 2014, the new Town Engineer obtained from DOT a detail of all open Chapter 90 Program funds available to the Town and began the process of gathering vendor payment data and completing the required Chapter 90 Program reimbursement forms. The total Chapter 90 Program reimbursements requested by the Town Engineer totaled approximately \$767,000 of a possible \$883,000 available to the Town.

We recommend that the Town Engineer develop processes to periodically review the Town's Chapter 90 Program progress with the DPW Director and submit Chapter 90 Program reimbursement requests as costs are incurred.

Landfill

Based on our physical observation of the landfill's operations, reviews of accounting files and other source documents as well as interviews with landfill and DPW personnel, we observed the following areas for improvement in internal controls:

- There is an absence of formal, written policies and procedures. Effective policies and procedures can provide better assurance that the strategic goals and financial objectives of the DPW and landfill are being met. Furthermore, in periods of personnel transition, for which the DPW has recently experienced a good deal of key employee turnover, policies and procedures can lessen the impact of sudden and unexpected personnel changes.

We recommend that the DPW and landfill develop written policies and procedures surrounding not only revenue processing, but also costs and expenses associated with personnel and outside vendors and communication with other Town departments.

- There was an absence of video surveillance equipment at the landfill's scale house. This is the point of sale for all revenue-generating activities at the landfill. Remote video monitoring and surveillance equipment, which is now an affordable process, of the scale house would permit the DPW to remotely monitor the activities of the scale house operations and address two of the three risks listed above. Through remote monitoring, the DPW may periodically check the scale house operations to better ensure that all chargeable waste is being processed through the Waste Works system as well as verify the scale house operator's classification of chargeable waste.

We recommend that a remote video monitoring and surveillance system be installed at the scale house. One camera should be focused on the cash register and another on the truck's contents.

- The waste service agreement between the Town and WON permits the Town to perform periodic audits of WON's tipping fees calculations in Section 9.05(d). The DPW regularly receives scale tickets and can compare recorded transactions with those processed in Waste Works, for which the DPW has a software license. We believe that periodic, unannounced cash counts at the scale house should be performed monthly, at a minimum, by either DPW or Town finance personnel.

We recommend that the DPW and Town develop a process to perform periodic, unannounced cash counts at the scale house. Differences, if any, should be resolved with the DPW, Town finance office and the WON operations director.

- Safeguarding cash assets is a goal of any internal control system. The current practices employed at the landfill to store cash collections made at the scale house overnight need improvement. Cash collections held overnight, are gathered by a DPW employee each weekday morning. For security purposes, the current procedures will not be detailed in full in this report other than to state that cash collections held overnight can be stored in a more secure manner.

We recommend that the landfill and DPW modify their current procedures as follows:

- A DPW employee should collect scale house cash collections at the conclusion of each day Monday to Friday and at the open of business each Monday morning.
- The landfill operator should install a safe within a secured location within their facility for cash collections that it will maintain overnight for weekends and Town holidays in which the landfill is open but the DPW is not.
- Collections of landfill revenues on account represent the vast majority of the approximate \$3 million in fiscal year 2013 tipping fees. Customers remit their payments to the DPW, who inputs these collections into Waste Works and prepares a turnover for these cash receipts for remittance to the Town Treasurer. This is a significant cash collection process for a department that appears to be understaffed at the present time. The use of a lockbox would create operating efficiencies within the DPW and better ensure that cash applications are being made properly within the Waste Works system. In addition, if a lockbox were used, the bulk of the cash receipt handling and processing would be taken out of the hands of the administrative clerks in the DPW office and placed in the care of the more advanced accounting skilled individuals in the Finance Department, thereby significantly reducing the financial risk described in the "Overview" section of this report.

We recommend that the Town and DPW consider implementing a lockbox collection system for landfill tipping fees similar to the type the Town currently uses for a variety of other taxes and fees.

- The landfill is categorized as an enterprise fund and therefore follows full accrual accounting similar to the accounting principles employed by commercial, non-public organizations. As such, the landfill records outstanding amounts due from unpaid customer balances for tipping fees as accounts receivable on its statement of net position. We were provided an aging report as of June 10, 2014 and noted that over \$141,000, or 29%, of the approximate \$484,000 in outstanding balances was aged over ninety days. The DPW director indicated that the DPW had exhausted all collection efforts on \$53,512 in old, past due receivables. Furthermore, we identified a single balance totaling \$71,900 from a customer that

hasn't done business with the landfill since 2007. In total, these two items represent \$125,412, or nearly 89%, of the entire over 90 day balance.

We recommend the following in relation to receivables:

- The DPW and Town Finance Department develop an abatement policy for old receivable balances and present this policy to the Town's Board of Selectmen for approval. Once approved, annual abatement requests should be presented to the Board of Selectmen for write-off from the landfill's receivable records.
- The landfill has an internal policy whereby customers with outstanding balances aged more than ninety days must pay for their disposal at the time of disposal until the old outstanding balances are satisfied. We observed many instances within the aging reports with customers who have current balances and over ninety day balances, which would indicate that this policy is not strictly adhered to. We recommend that the DPW and landfill re-communicate this policy to its customers and adhere to this policy.
- Credit applications and credit checks are not made for landfill customers. We recommend that the DPW develop a credit application that would facilitate its collection efforts on delinquent accounts.
- As previously discussed, commercial fees are assessed and billed annually to all businesses in Town. The annual fees approximate \$400,000 and are typically billed in the late fall. During fiscal year 2014, these bills were not sent out until May and, as a result, the current collections are about \$250,000 for fiscal year 2014, which is nearly \$150,000 under projection. Revenues in other areas were better than projected, so the Town managed to avert a revenue deficit; however, it is important that a policy is developed to ensure that bills are sent timely to avoid any possible revenue deficits at year-end.

Sewer

Based on our reviews of accounting files and other source documents as well as interviews with DPW personnel, we observed the following areas for improvement in internal controls:

- There is an absence of formal, written policies and procedures. Effective policies and procedures can provide better assurance that the strategic goals and financial objectives of the DPW and sewer department are being met. Furthermore, in periods of personnel transition, for which the DPW has recently experienced a good deal of key employee turnover, policies and procedures can lessen the impact of sudden and unexpected personnel changes.

We recommend that the DPW and sewer department develop written policies and procedures surrounding not only revenue processing, but also costs and expenses associated with personnel and outside vendors and communication with other Town departments.

- Customers on septic systems are not assessed sewer usage fees by the water department. Residents will convert from septic to town sewer as part of a renovation or rebuilding process. A sewer application permit is required for all new sewer connections. Unless this information is communicated to the water department, there is the potential that these new sewer users receive sewer services free of charge.

We recommend that the sewer department develop a policy whereby all septic to sewer conversions are timely communicated to the water department. Furthermore, an external policy should be developed and communicated to sewer users whereby all septic to sewer conversions will begin being assessed sewer usage fees at the earlier of (i) the installation date or (ii) ninety days after the sewer application permit. In addition, a copy of the sewer application permit should be sent to the water department monthly for their records.

- Sewer application fees and permits are entirely under the control of the sewer department. Applicants prepare sewer application permits, which are prenumbered and sequential and render their payment to a DPW administrative clerk at the DPW building. These sewer application permits are reviewed by the DPW administrative clerk. Funds are then collected from the applicant and signed off by an authorized sewer department employee, generally the DPW director. The applicant is given the original portion of the permit. The yellow portion is retained with the payment and ultimately submitted to the Town Assessor for use in the sewer department's other one-time fee – the sewer privilege fee.

The DPW administrative clerk maintains an Excel file to record and account for the sequence of sewer application permits. However, this Excel file is seldom used and thus incomplete. The use of a log book to account for sewer application permits is a key element of an internal control system as it accounts for the sequence of permits and therefore serves as a key detective control to timely detect a loss from unaccounted revenues. We recommend that the sewer department implement a sewer application permit log book that tracks the issuance of sewer application permits, the date of issuance, amount assessed and collected, the DPW party that accepted the sewer application fee and the DPW party that approved the issuance of the sewer application permit. This log should be periodically reviewed to ensure that the sequence of sewer application permits is intact and that all recorded revenues transactions within the Town's MUNIS accounting system are consistent with the details contained in the log. Alternatively, an "e-permitting" system should be strongly considered within the sewer department's operations.

- We observed that turnovers of sewer application fees were not being performed on a timely basis. The DPW director informed us that a former employee had approximately \$52,000 in checks made payable to the DPW that were aged several weeks (and in some cases months), many of which pertained to sewer application fees and septic hauling charges. Our review of 24 months of activity indicated that it was common practice to hold receipts for several weeks and then make a bulk deposit. The Town has firm policies that turnovers are to be made daily or weekly should the dollar value of departmental collections be small.

We recommend that the DPW adhere to the Town's turnover policies and require that all monies it receives from all sources be turned over to the Town Collector on a daily basis. Furthermore, the turnover forms should list all permit numbers as a further internal control.